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## *ARRC Releases Vendor Survey and Buy-Side Checklist for Transition to SOFR*

By [Paul Hastings LIBOR Transition Task Force](#)

On January 31, 2020, the Alternative Reference Rates Committee (“ARRC”) released a vendor survey<sup>1</sup> and buy-side checklist<sup>2</sup> developed by its Operations/Infrastructure Working Group relating to the transition from USD LIBOR to the ARRC’s recommended alternative reference rate, the Secured Overnight Financing Rate (“SOFR”). Both documents are intended to support market participants’ efforts to transition away from LIBOR by addressing key infrastructure and operational issues when preparing for LIBOR’s cessation at the end of 2021.

### **Vendor Survey**

The ARRC’s vendor survey requests market participants’ voluntary participation in responding to a list of questions aimed at gauging vendors’ preparedness to transition from USD LIBOR to SOFR. The survey provides the vendors: (1) an opportunity to flag to the ARRC any operational challenges for their transitions by focusing on foundational questions relating to the required changes for the shift (Section I); and (2) a self-assessment tool for LIBOR transition readiness that focuses on capabilities required for the transition (Section II). The ARRC has asked vendors to submit their responses to Section I of the survey by March 16, 2020.

### **Buy-Side/Asset Owner Checklist**

As a follow-up to its original bank-focused “Practical Implementation Checklist for SOFR Adoption” published in September 2019,<sup>3</sup> the ARRC released a similar checklist providing guidance on steps to take to prepare for the transition, this time with a particular focus on the needs of buy-side firms such as asset managers and asset owners. The buy-side checklist, like the previous bank-focused checklist, is designed to be used alongside the User’s Guide to SOFR.<sup>4</sup>

Compared to the 2019 checklist, the buy-side checklist takes into consideration factors such as investment fees, asset and liability inventory, fund level issues, and vendor relationships, which are specific to the needs of asset managers and asset owners. The buy-side checklist covers recommendations and related step-by-step processes for LIBOR transition across the following 10 key categories (*with emphases added to highlight differences from the bank-focused checklist*):

- 1. Establish Program Governance:** Implement a robust program governance and management framework, and define and prioritize program objectives.

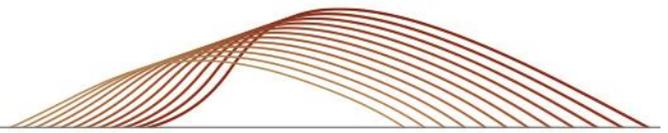


2. **Develop Transition Management Program:** Establish an enterprise-wide program to evaluate and mitigate risk for transitioning away from LIBOR and adjust as needed.
3. **Implement Communication Strategy:** Develop strategy to proactively engage, educate, and communicate with internal and external stakeholders, *including fund boards*, as needed.
4. **Identify and Validate Exposure:** Quantify and develop flexible process for monitoring LIBOR-linked *assets* and exposure and construct capabilities to value and price SOFR and alternative-rate based products.
5. **Assess Contractual Remediation Impact and Design Plan:** Review existing LIBOR-related contracts and *service level agreements, including fund prospectuses and investment management agreements*, to determine impact of fallbacks, define prioritization strategy for remediation, and incorporate recommended fallback language developed by ARRC/ISDA for new contracts that reference LIBOR.
6. **Develop Product and Portfolio Strategy:** Develop strategy for redesigning/transitioning existing portfolio of LIBOR-based products into new SOFR-linked products. *For portfolios tied to LIBOR, understand implications for the forward portfolio and transition where appropriate.*
7. **Risk Management:** Identify key transition risks and mitigating actions to address those risks, and establish process for ongoing risk management and role of key control functions.
8. **Develop Operational and Technology Readiness Plan:** Develop plan to address operating model and technology implications, *including with respect to vendors, and conduct table-top exercises for transition.*
9. **Accounting and Reporting, including Investment and Client Accounting:** Identify impacts to accounting standards along with related reporting considerations, *including fund performance and customer statements.*
10. **Taxation and Regulation:** Determine tax and regulatory implications and any required reporting considerations, *including impact on operation and effectiveness of liquidity risk management programs for 1940 Act Funds.*

## Conclusion

Market participants are strongly encouraged to develop and implement LIBOR transition plans if they have not done so already. Asset managers and asset owners should modify and tailor the ARRC buy-side checklist to create their own implementation plan and set timelines based on each firm's individual circumstances, such as the firm's size and volume of LIBOR exposures. With the upcoming LIBOR cessation deadline looming, time is of the essence for market participants to assess their LIBOR risk exposures and make the necessary preparations in order to avoid a significant market disruption.





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- <sup>1</sup> The full text of the vendor survey and the accompanying letter are available [here](#).
  - <sup>2</sup> The full text of the buy-side checklist can be found [here](#).
  - <sup>3</sup> For more information on the ARRC's original SOFR implementation checklist, please see our recent publication, "ARRC Releases Practical Implementation Checklist for SOFR Adoption," available [here](#).
  - <sup>4</sup> For more information on the ARRC's "A User's Guide to SOFR," a white paper to help explain how market participants can use SOFR as the alternative to LIBOR, please see our publication, "ARRC Releases White Paper Regarding SOFR – The New U.S. Dollar LIBOR Alternative," available [here](#).

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